



Statement of the Honorable Linda Sánchez
Chairwoman, Subcommittee on Commercial and Administrative Law,
for the Oversight Hearing on Executive Compensation in Chapter 11 Bankruptcy Cases: How
Much is Too Much?
April 17, 2007

As a result of many Chapter 11 bankruptcy proceedings, the "rich are getting richer, while the poor are getting poorer," as stated in a recent press release by the Northwest Flight Attendants Union. This is a compelling summary of a recent phenomenon that should concern us all.

Chapter 11 of the Bankruptcy Code was originally enacted to give all participants an equal say in how a business, struggling to overcome financial difficulties, should reorganize. Unfortunately, this laudable goal does not reflect reality, especially for certain participants in Chapter 11.

This problem is clearly illustrated by the numerous Chapter 11 cases in which chief executive officers receive outrageously large compensation and bonus packages while they simultaneously slash the wages, benefits and even jobs of the workers who are the backbone of these businesses.

"All too often," as one bankruptcy judge recently observed, executive retention plans "have been widely used to lavishly reward – at the expense of the creditor body – the very executives whose bad decisions or lack of foresight were responsible for the debtor's financial plight."

This is an issue that deserves more attention from this Committee. While I commend my colleagues on both sides of the aisle (Ranking Member Chris Cannon and Representative Bill Delahunt) for their efforts to address certain aspects of this problem, much more, unfortunately, still needs to be done.

Here's just one example. The chief executive officer of UAL Corporation, the parent of United Airlines, received compensation worth \$39.7 million in 2006, just after UAL emerged from three years of Chapter 11 bankruptcy protection. During the course of its bankruptcy, however, UAL terminated pensions for 120,000 workers and shifted \$5 billion in pension obligations to the PBGC, resulting in one of the largest pension defaults in the history of the United States, according to the Associated Press. These inequities are astounding.

The Executive Compensation Committee of the American College of Bankruptcy recently issued a report noting that employee retention and incentive compensation programs present a "daunting challenge." It continued, "There are few issues faced by Chapter 11 debtors that are more difficult and potentially contentious than management compensation issues."

Accordingly, I look forward to hearing the testimony of the witnesses at today's hearing.